

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
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R 271424Z SEP 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8715
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO

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USEEC
USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: PRESS VIEWS OF IMF/IBRD MEETING

1. UK PRESS COVERAGE OF IMF/IBRD MEETINGS HAS BEEN EXTENSIVE. THIS REFLECTS, IN PART, THE WIDELY EXPRESSED VIEW THAT THE UK CAN, WITH A DRAMATICALLY CHANGED EXTERNAL FINANCIAL CONDITION, ATTEND THESE MEETINGS WITH A SENSE OF PRIDE. IT ALSO REFLECTS UK INTEREST IN COMMENTS, SUCH AS THOSE BY CHANCELLOR HEALEY AND DR. WITTEVEEN, THAT TOUCH ON PROSPECTS FOR UK ECONOMIC EXPANSION.

2. EDITORIAL COMMENT IN THE QUALITY PRESS, HOWEVER, HAS BEEN INFREQUENT. THE VIEWS THAT HAVE BEEN EXPRESSED REFLECT GENERAL APPROVAL OF IMF OPERATIONS. ALTHOUGH THE

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COMMENTS ON UK EXPANSION CONCENTRATE ON THE DETAILS OF POTENTIAL TAX AND EXPENDITURE CHANGES, THE NEED FOR CONTINUED RESTRAINT IS ALSO EXPRESSED. THE FOLLOWING ARE THE CURRENT EXTENDED EDITORIAL REMARKS ON DEVELOPMENTS AT THE IMF/IBRD MEETING:

3. "THE VALUE OF CONDITIONS. ... THE REAL TENSIONS ARE BE-

TWEEN THOSE GOVERNMENTS WHICH ARE MAINLY WORRIED ABOUT UN-
EMPLOYMENT AND WHICH STILL BELIEVE THAT A DEMAND STIMULUS
WOULD HELP HERE, AND THOSE GOVERNMENTS WHOSE MAIN CONCERN
IS TO AVOID TRIGGERING OFF ANOTHER ROUND OF INFLATION.

THE MAIN ROLE OF IMF LOANS IS AS A SAFETY
NET FOR COUNTRIES WHICH ARE NEARING THE END OF THEIR CRE-
DIT-WORTHINESS AND ALSO AS A CERTIFICATE OF GOOD HOUSE-
KEEPING FOR SOME OF THE BORDERLINE CASES. BUT THESE
CHANGED CIRCUMSTANCES MAKE THE QUESTION OF CONDITIONS ALL
THE MORE IMPORTANT. IT IS NO SURPRISE THAT THE GERMANS
SHOULD WANT CONDITIONS TO BE IMPOSED AT AN EARLIER STAGE
THAN BEFORE IN ANY USE MADE OF THE NEW QUOTAS, WHILE SOME
OF THE DEVELOPING COUNTRIES WOULD LIKE TO SEE THEM WAIVED
FOR A CONSIDERABLE RANGE. ...

THE OBVIOUS COMPROMISE WILL BE TO CARRY ON WITH EXIS-
TING PROCEDURES UNDER WHICH SUCCESSIVE TRANCHES BECOME
INCREASINGLY MORE DIFFICULT TO OBTAIN. BUT THE PRINCIPLE
OF CONDITIONALITY MUST REMAIN. UK EXPERIENCE DEMONSTRATES
THAT IMF LOANS DO MOST GOOD IF FARILY TIGHT CONDITIONS
ARE IMPOSED." FINANCIAL TIMES, SEPTEMBER 26.

4. "LIVING WITH DILEMMAS. ... IT IS ...
NOT SURPRISING THAT FACED WITH A DISAPPOINTING WORLD RE-
COVERY, FINANCE MINISTERS SHOULD GIVE PRIDE OF PLACE TO
'REFLATION' AS THEY DID IN A SIMILAR CONJUNCTURE IN 1971-
72. IN THE BRITISH CASE, THE BALANCE OF PAYMENTS IS
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STRONG AND STERLING IS EXPERIENCING UPWARD PRESSURE. THIS
WAS ALSO THE CASE IN 1971, BUT ON THIS OCCASION THERE IS
THE BENEFIT OF NORTH SEA OIL AS WELL AS DOMESTIC FINAN-
CIAL RESTRAINT.

IT IS AGAINST THIS BACKGROUND THAT THE IMF'S MANA-
GING DIRECTOR, DR. WITTEVEEN, IS NOT MERELY SUPPORTING
BUT URGING EXPANSIONARY MEASURES IN THE UK. IT IS TRUE
THAT THE BRITISH INFLATION RATE IS STILL ABOVE THE WORLD
AVERAGE, BUT THE IMF AS A CREDITOR BODY IS LIKELY TO
GIVE PRECEDENCE TO BALANCE OF PAYMENTS CONSIDERATIONS
OVER DOMESTIC PRICE STABILITY IF THE TWO POINT IN DIF-
FERENT DIRECTIONS. MR. HEALEY WOULD PROBABLY PREFER TO
WAIT UNTIL THE BUDGET, SO THAT HE CAN SEE HOW WAGES HAVE
MOVED BEFORE DECIDING HOW FAR TO GO." FINANCIAL TIMES,
SEPTEMBER 27.

5. "EVERYONE SAYS HE CAN GIVE A LITTLE NOW, A LITTLE
LATER. ... STERLING IS EMBARRASSINGLY STRONG, INFLATION
HAS SHOWN CLEAR SIGNS OF SLOWING DOWN, THE CURRENT
ACCOUNT HAS JUST REGISTERED A SURPLUS AND THE CHANCELLOR
HAS BEEN GIVEN A PUBLIC INDICATION BY THE HEAD OF THE
FUND THAT THE IMF WOULD SMILE ON A PACKAGE OF REFLATION-

ARY MEASURES LATER THIS YEAR. ...

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... IT IS DIFFICULT TO THINK OF ANY GOOD REASON WHY
THE GOVERNMENT SHOULD NOT CHANGE COURSE THIS AUTUMN. THE
TARGET FOR THE PUBLIC-SECTOR BORROWING REQUIREMENT AGREED
WITH THE FUND LAST YEAR IS BEING UNDERSHOT -- PROBABLY BY
ABOUT 1,000 MILLION POUNDS -- AND THERE IS NO MORE VIRTUE
IN UNDERSHOOTING IT THAN THERE WOULD HAVE BEEN IN EXCEED-
ING IT. THE TARGET FOR THE GROWTH OF THE MONEY SUPPLY
MAY YET TURN OUT TO BE MORE OF A CONSTRAINT -- THOUGH
FOR THE TIME BEING IT, TOO, IS BEING UNDERSHOT. ...

... THE REAL DILEMMA FOR THE GOVERNMENT IS NOT WHAT
TO DO THIS AUTUMN; BUT WHAT TO DO NEXT YEAR. NORTH SEA
OIL WILL HAVE PUT US FIRMLY INTO SURPLUS BY THEN. THE
ECONOMY IS LIKELY TO LOOK JUST AS MORIBUND AS IT DOES
NOW. ABROAD WE MAY WELL COME UNDER PRESSURE TO TAKE A
DOSE OF THE MEDICINE WE HAVE URGED ON THE GERMANS AND
JAPANESE, AND USE OUR TRADE SURPLUS TO EXPAND OUR DEMAND
FOR IMPORTS. AT HOME, THE GOVERNMENT WILL BE COMING UP
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TO AN ELECTION. IT WILL BE SORELY TEMPTED TO USE THE NORTH SEA OIL SURPLUS TO FINANCE A HUGE CUT IN PERSONAL TAXATION. THE IMPORTANT THING, THOUGH, WILL BE TO WATCH WHAT IS HAPPENING TO THE NON-OIL BALANCE OF PAYMENTS. IMPORTS, PARTICULARLY OF FINISHED MANUFACTURES, ARE STILL GROWING EVEN WITH A STAGNANT ECONOMY. BIG CUTS IN PERSONAL TAXES OFFER A SUREFIRE RECIPE FOR BOOSTING IMPORTS IT IS NOT BEYOND OUR POWER TO RUN A BALANCE-OF-PAYMENTS DEFICIT EVEN IN SPITE OF THE NORTH SEA. NEXT YEAR'S BUDGET, ON EVERY SANE ESTIMATE, WILL STILL HAVE TO BE A CAUTIOUS AFFAIR." THE GUARDIAN, SEPTEMBER 27.

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